

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

HARTLAND DEERFIELD TYRONE
FIRE AUTHORITY

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2005

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY

AUTHORITY BOARD MEMBERS

Joe Petrucci - Chairperson
David Kuzner - Vice Chairperson
Alfred Mattioli - Secretary
Tom Green - Trustee (alternate)
Mike Lewis - Trustee (alternate)
Bill Fountain - Trustee (alternate)

OTHER AUTHORITY BOARD NON-MEMBERS and (non-voting) INDIVIDUALS

Adam Carroll - Fire Chief
Susan Dryden-Hogan - Treasurer
Jennifer Drew - Assistant Secretary

ATTORNEY

Gentry Law Offices, P.C.

AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

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PFEFFER ■ HANNIFORD ■ PALKA
Certified Public Accountants

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September 6, 2005

Board of Trustees
Hartland Deerfield Tyrone Fire Authority
3205 Hartland Road
Hartland, Michigan 48353

INDEPENDENT AUDITORS' REPORT

Honorable Board of Trustees:

We have audited the accompanying financial statements of the Hartland Deerfield Tyrone Fire Authority as of and for the year ended March 31, 2005. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hartland Deerfield Tyrone Fire Authority, as of March 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

As described in Note 8, the Authority has implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, as of March 31, 2005.

The Management's Discussion and Analysis and other required supplementary information on pages 6 through 10 and pages 33 through 34 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hartland Deerfield Tyrone Fire Authority's basic financial statements. The supplementary information presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, fairly states in all material respects in relation to the basic financial statements as a whole.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT DISCUSSION
AND
ANALYSIS

Management Discussion and Analysis March 31, 2005

Within this section of the Hartland Deerfield Tyrone Fire Authority's annual financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended March 31, 2005. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's basic financial statements. The basic financial statements include government-wide financial statements, fund financial statements, and notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

Government-Wide Financial Statements

The Authority's annual reports include two government-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Activities which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

Both government-wide financial statements distinguish governmental activities of the Authority that are intended to recover all or a significant portion of their costs through user fees and charges or by taxes collected. The Authority's financial reporting includes all the funds of the Authority and, additionally, organizations for which the Authority is accountable.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Authority uses funds to ensure and demonstrate compliance with finance-related laws and regulations.

The Authority has one kind of fund which is a governmental fund.

Governmental funds are reported in the financial statements and encompass essentially the same functions as governmental activities in the government-wide financial statements except with a different focus on the financial activity. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of these resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term. Since the focus of the government-wide financial statements includes a long-term view, a reconciliation of these fund balances has been completed to detail its relation to net assets.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of both the government-wide and fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Other supplementary information includes detail by fund for receivables, payables, transfers, and payments within the reporting entity.

Financial Analysis of the Authority as a Whole

The Authority has implemented the new financial reporting model used in this report beginning with the current fiscal year ended March 31, 2005. Over time, as year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the Authority as a whole.

The Authority's net assets at the end of the fiscal year were \$492,693. This is a \$49,070 increase over last year's net assets of \$443,623.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Summary of Net Assets

	Governmental Activities
Current and other assets	\$ 414,959
Capital assets	1,118,897
Total assets	<u>1,533,856</u>
Accounts payable	37,605
Accrued expenses	298,271
Notes and capital leases payable	705,287
Total liabilities	<u>1,041,163</u>
Net assets:	
Invested in capital assets	531,542
Unrestricted (deficit)	(38,849)
Total net assets	<u>\$ 492,693</u>

Summary of Changes in Net Assets

	<u>Governmental Activities</u>
Revenues:	
Program revenues	
Charges for services	\$ 20,102
Operating grants and contributions	1,300,868
General revenues	
Interest income	2,673
Other	<u>237</u>
Total revenues	<u>1,323,880</u>
 Expenses for fire protection	 <u>1,274,810</u>
 Increase in net assets	 49,070
 Beginning net assets	 <u>443,623</u>
 Ending net assets	 <u><u>\$ 492,693</u></u>

Changes in Financial Status

The increase in net assets of \$49,070 added to the overall beginning net assets, however, the unrestricted net assets remained at a small deficit of (\$38,849).

Financial Analysis of the Authority's Fund

The Authority's General Fund had excess revenues over expenditures after other financing sources of \$78,998 to add to its beginning fund balance of \$85 which gave an ending fund balance of \$79,083.

General Fund Budgetary Highlights

The original General Fund budget adopted by the Authority was created prior to the beginning of the fiscal year outlining the Authority's anticipated financial operations. Small amendments were required from the originally adopted budget to reflect the economic reality of the Authority.

However, the Authority did not amend the budget for non-cash financing of a 2004 Pierce Engine and SCBA equipment totaling \$566,143. On a positive note, the Authority also did not budget for the offsetting revenues (financing sources). Even though capital outlay went over budget by \$515,273 (negative variance), its other financing sources (revenues) went over budget by \$566,143 (positive variance).

The purchases of the aforementioned equipment were approved by the Authority Board.

Capital Asset and Debt Administration

The Authority spent \$690,208 in capital outlay. That total includes items such as SCBA equipment, 2004 Pierce Engine, general equipment and radios.

The Authority financed with Hartland Township the cost of the SCBA equipment and the 2004 Pierce Engine with a capital lease with Oshkosh.

Economic Conditions and Future Activities

Future operations will continue to be funded by contributions from member municipalities. However, Tyrone Township has given official notice that it is terminating its membership effective March 31, 2006. There is some uncertainty as to the financial ramifications this event will cause.

Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have any further questions about this report or request additional information please contact the Hartland Deerfield Tyrone Fire Authority.

BASIC
FINANCIAL
STATEMENTS

GOVERNMENT-WIDE
FINANCIAL
STATEMENTS

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
STATEMENT OF NET ASSETS
MARCH 31, 2005

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 145,696
Accounts receivable	
Fire runs	5,348
Member townships	257,495
Prepaid expenditures	6,420
Capital assets:	
Operating equipment	89,150
Transportation equipment	1,418,331
Less: accumulated depreciation	<u>(388,584)</u>
Total assets	<u>1,533,856</u>
LIABILITIES	
Accounts payable	37,605
Accrued wages/taxes	32,747
Accrued vacation and sick time	8,029
Due to Hartland Township	257,495
Note payable - Hartland Township	
Current	17,471
Non-current	100,461
Capital leases payable	
Current	147,426
Non-current	<u>439,929</u>
Total liabilities	<u>1,041,163</u>
NET ASSETS	
Investment in capital assets, net of related debt	531,542
Unrestricted (deficit)	<u>(38,849)</u>
Total net assets	<u>\$ 492,693</u>

The accompanying notes are an integral part of these financial statements.

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Operating</u>	<u>Net</u>
		<u>Charges for</u>	<u>Contributions</u>	<u>(Expenses)</u>
		<u>Services</u>		<u>Revenues and</u>
				<u>Changes in</u>
				<u>Net Assets</u>
Governmental activities:				
Fire protection	\$ (1,246,394)	\$ 20,102	\$ 1,300,868	\$ 74,576
Interest on long-term debt	<u>(28,416)</u>			<u>(28,416)</u>
Total governmental activities	<u>\$ (1,274,810)</u>	<u>\$ 20,102</u>	<u>\$ 1,300,868</u>	<u>46,160</u>
General Revenues:				
Interest income				2,673
Other income				<u>237</u>
Total general revenues				<u>2,910</u>
Change in net assets				49,070
Net assets, April 1, 2004				<u>443,623</u>
Net assets, March 31, 2005				<u>\$ 492,693</u>

The accompanying notes are an integral part of these financial statements.

FUND
FINANCIAL
STATEMENTS

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUND
MARCH 31, 2005

	<u>General Fund</u>
<u>ASSETS</u>	
ASSETS	
Cash	\$ 145,696
Prepaid expenses	6,420
Accounts receivable - fire runs	5,348
Due from member municipalities	<u>257,495</u>
Total assets	<u>\$ 414,959</u>
 <u>LIABILITIES AND FUND BALANCE</u>	
LIABILITIES	
Accounts payable	\$ 37,605
Accrued wages	27,477
Accrued vacation and sick time	8,029
Accrued payroll taxes	5,270
Due to Hartland Township	<u>257,495</u>
Total liabilities	335,876
FUND BALANCE	
Fund balance - undesignated	<u>79,083</u>
Total liabilities and fund balance	<u>\$ 414,959</u>

The accompanying notes are an integral part of these financial statements.

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
RECONCILIATION OF STATEMENT OF NET ASSETS
OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET
MARCH 31, 2005

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total fund balance per balance sheet		\$	79,083
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.			
Historical cost	\$1,507,481		
Depreciation	<u>(388,584)</u>		
Capital assets net of depreciation			1,118,897
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These include:			
Note payable - Hartland Township	(117,932)		
Capital leases payable	<u>(587,355)</u>		
Net			<u>(705,287)</u>
Net assets of governmental activities		\$	<u>492,693</u>

The accompanying notes are an integral part of these financial statements.

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED MARCH 31, 2005

	<u>General Fund</u>
REVENUES	
Hartland Township – contributions	\$ 715,476
Tyrone Township – contributions	442,296
Deerfield Township – contributions	143,096
Fire runs	20,102
Interest income	2,673
Other revenue	<u>237</u>
Total revenues	<u>1,323,880</u>
EXPENDITURES	
Personnel	540,383
Employment	24,512
Administrative services and supplies	50,501
Contingency	3,951
Contractual services	196,750
Operating supplies	60,443
Repairs and maintenance	37,960
Utilities	31,152
Capital outlay	<u>865,373</u>
Total expenditures	<u>1,811,025</u>
Excess of revenues over (under) expenditures	<u>(487,145)</u>
OTHER FINANCING SOURCES	
Proceeds from capital lease debt	443,843
Proceeds from loans	<u>122,300</u>
Total other financing sources	<u>566,143</u>
Excess of revenues over (under) expenditures and other financing sources	78,998
BEGINNING FUND BALANCE, APRIL 1, 2004	<u>85</u>
ENDING FUND BALANCE, MARCH 31, 2005	<u><u>\$ 79,083</u></u>

The accompanying notes are an integral part of these financial statements.

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2005

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - governmental funds	\$ 78,998
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Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their useful lives as depreciation expense. The amount by which depreciation exceeded capital outlays is as follows:

Capital outlay - (portion capitalized as assets)	\$ 520,044	
Depreciation expense	<u>(130,578)</u>	
Net		389,466

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Repayment of:

Note payable - Hartland Township	4,368	
Capital leases payable	<u>142,381</u>	
Net		146,749

Proceeds from long-term debt provide current financial resources to governmental funds, but the issuing of debt increases long-term liabilities in the Statement of Activities. The following debt was issued during the year:

Loan proceeds - Hartland Township	(122,300)	
Loan proceeds - capital leases	<u>(443,843)</u>	
Net		<u>(566,143)</u>

Change in net assets of governmental activities	\$ <u>49,070</u>
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The accompanying notes are an integral part of these financial statements.

NOTES
TO
FINANCIAL
STATEMENTS

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Hartland Deerfield Tyrone Fire Authority was organized under Public Act No. 57, of the Public Acts of 1988, as amended in December of 2001 on April 18, 2003. The Authority approved a fiscal year-end date of March 31. The purpose of the Authority is to provide fire protection and other emergency health and safety services. The incorporating municipalities are Hartland Township, Deerfield Township and Tyrone Township. Each municipality is represented by two members of which 1 representative from each municipality is considered an alternate. Thus, there are only three votes for all board approvals. Each board member must be an elected individual for his or her respective municipality and is selected by its respective municipality board of trustees.

The six board members appoint its own officers which are the chairperson, vice chairperson and secretary/treasurer, as well as select two additional non-voting and non-member individuals for the positions of assistant secretary and assistant treasurer.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 39 "The Financial Reporting Entity", these financial statements present all activities of the Authority. There are no component units of the Authority using the criteria established by the GASB for determining the reporting entity.

B. BASIC FINANCIAL STATEMENTS

In accordance with GASB Statement No. 34 - *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report on the Authority as a whole. All activities are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The government-wide Statement of Net Assets reports all financial and capital resources of the Authority. It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity.

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

The government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the Authority are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead are allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expense between governments that allocate direct expenses and those that do not. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also, part of the basic financial statements are fund financial statements for the governmental funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures of fund category and of the governmental funds combined), it also gives governments the option of displaying other funds as major funds. Other non-major funds are combined in a single column on the fund financial statements. The General Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The Authority reports only one fund, the General Fund.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

- A. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, sales and use taxes, transient occupancy taxes, licenses, fees and permits, intergovernmental revenues, (including motor vehicle license fees), charges for services, fines forfeits and penalties, and interest.
- B. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
- C. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as another financing source.

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the Authority's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

D. CAPITAL ASSETS

Under GASB Statement No. 34, all capital assets are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than one year. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

E. MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. BUDGETS

The Authority is required to prepare a proposed annual budget reflecting projected revenues and expenditures of the Authority for the next fiscal year beginning April 1. The proposed budget is presented for the budget meeting in December of the year prior to the end of the fiscal year. The Authority board is then required to submit the proposed budget to the incorporating Municipalities no later than January 1st of each year. After approval of the proposed budget of a two-thirds majority of the incorporating Municipalities, the Authority Board gives final approval to the Authority budget for the next fiscal year. The budget may be adjusted from time to time upon approval by the Authority Board with a two-thirds majority vote. The Authority's expenditures exceeded budgeted appropriations in several functional activities.

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

G. RISK MANAGEMENT

The Authority is exposed to various risks of loss pertaining to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for these claims. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage.

H. ACCRUED COMPENSATED ABSENCES

The Authority has recorded a liability for compensated absences of the fire department. The policies regarding compensated absences are outlined in the Authority's "Rules of Employment".

I. CASH AND CASH EQUIVALENTS

The Authority considers its deposits and restricted deposits and investments held with maturities of three months or less are considered to be cash equivalents.

J. INCOME TAXES

As a governmental agency, the Authority is exempt from both federal income taxes and Michigan Single Business Tax.

NOTE 2 - CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2005 was as follows:

	<u>Balances</u> <u>4-01-04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>3-31-05</u>
Operating equipment	\$ 79,000	\$ 10,150	\$	\$ 89,150
Transportation equipment	<u>908,437</u>	<u>509,894</u>	<u></u>	<u>1,418,331</u>
	987,437	520,044		1,507,481
Accumulated depreciation	<u>(258,006)</u>	<u>(130,578)</u>	<u></u>	<u>(388,584)</u>
Governmental activities capital assets, net	<u>\$ 729,431</u>	<u>\$ 389,466</u>	<u>\$</u>	<u>\$ 1,118,897</u>

Depreciation expense is being recorded solely for fire protection services. The Authority utilizes the straight line method to depreciate capital assets over their estimated useful lives. There is \$587,355 of capital lease debt associated with the transportation equipment.

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers; acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured	\$ 100,000	\$ 100,000
Uninsured and uncollateralized	<u>45,596</u>	<u>69,187</u>
	<u>\$ 145,596</u>	<u>\$ 169,187</u>

The Authority maintains an imprest petty cash fund of \$100.

NOTE 4 - LEASE AGREEMENT

The Authority has a signed lease agreement with Hartland Township to lease the fire hall located at 3205 Hartland Road #61 and the sub-station located at 5965 Old US 23 #62 for \$1 per year for 10 years effective October 1, 2003.

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

NOTE 5 - LONG-TERM DEBT

The following is a summary of long-term debt activity for the Authority:

	<u>Balances</u> <u>4-01-04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>3-31-05</u>
CAPITAL LEASES				
Oshkosh Capital - 2003 Pierce	\$ 221,525	\$	\$ 71,253	\$ 150,272
GMAC - 2 trucks	64,368		15,763	48,605
Oshkosh Capital - 2004 Pierce	<u> </u>	<u>443,843</u>	<u>55,365</u>	<u>388,478</u>
Total capital leases	285,893	443,843	142,381	587,355
NOTE PAYABLE - HARTLAND TOWNSHIP				
SCBA equipment	<u> </u>	<u>122,300</u>	<u>4,368</u>	<u>117,932</u>
Total long-term debt	<u>\$ 285,893</u>	<u>\$ 566,143</u>	<u>\$ 146,749</u>	<u>\$ 705,287</u>

CAPITAL LEASES

1. Oshkosh Capital - 2003 Pierce - As part of the asset transfer agreement between the Authority and Hartland Township, the Authority took over the capital lease debt originally assigned to Hartland Township at the net present value of \$221,525. Interest is charged at 3.59% per annum. The Authority is making annual payments of \$79,206 until maturity in May 2006.
2. GMAC - 2 trucks - As part of the asset transfer agreement between the Authority and Hartland Township, the Authority took over two loans with GMAC originally assigned to Hartland Township at the net present value of \$72,250. The loans were financed with no interest. The monthly payment amounts are \$639.01 and \$674.63 for a 2003 pick-up truck and 2003 C2500 truck respectively until their maturity in March 2009.
3. Oshkosh Capital - 2004 Pierce - The Authority entered into a capital lease to purchase a new pumper. The Authority is responsible for annual payments of \$75,293.25 with interest of 4.49% of the outstanding balance until its maturity in the year ended March 31, 2011.

NOTE PAYABLE

1. The Authority issued a note payable on October 15, 2004 to Hartland Township to purchase SCBA equipment totaling \$122,300. The loan requires quarterly payments of \$4,367.86 plus 1.75% interest of the unpaid balance until maturity in the year ended March 31, 2012.

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

NOTE 5 - GENERAL LONG-TERM DEBT- (continued)

The following schedule details the future long-term debt of the Authority:

<u>Date of Payment</u>	<u>CAPITAL LEASES</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
3/31/2006	\$ 147,426	\$ 22,838	\$ 170,264
3/31/2007	152,673	17,590	170,263
3/31/2008	78,926	12,131	91,057
3/31/2009	67,311	9,295	76,606
3/31/2010	68,961	6,331	75,292
3/31/2011	<u>72,058</u>	<u>3,235</u>	<u>75,293</u>
Totals	<u>\$ 587,355</u>	<u>\$ 71,420</u>	<u>\$ 658,775</u>

<u>Date of Payment</u>	<u>NOTE PAYABLE - HARTLAND TOWNSHIP</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
3/31/2006	\$ 17,471	\$ 1,949	\$ 19,420
3/31/2007	17,471	1,643	19,114
3/31/2008	17,471	1,338	18,809
3/31/2009	17,471	1,032	18,503
3/31/2010	17,471	726	18,197
3/31/2011	17,471	420	17,891
3/31/2012	<u>13,106</u>	<u>115</u>	<u>13,221</u>
Totals	<u>\$ 117,932</u>	<u>\$ 7,223</u>	<u>\$ 125,155</u>

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

NOTE 6 - DEFINED BENEFIT PLAN -
MICHIGAN MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS)

The Authority provides a defined benefit pension plan under MERS. MERS is an agent multiple-employer, state-wide, defined benefit public employee retirement plan created under Public Act 135 of 1945 and now operates under Public Act 220 of 1996. MERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits on a voluntary basis to the State's local government employees. Under Public Act 220, MERS became an independent public non-profit corporation independent from State government. The effective date of independence was August 16, 1996, at which time MERS ceased to be a part of the State of Michigan, Department of Management and Budget.

As of March 31, 2005 the Authority had four covered employees and 45 total employees. Covered and total payrolls for the year then ended was \$190,021 and \$434,756 respectively. Currently there are no retirants receiving benefits from the plan. Total contributions made to the plan during the year ended was \$11,498.

At December 31, 2004, the unfunded pension liability was \$4,487, determined as follows:

Actuarial Accrued Liability

Retirees and beneficiaries currently receiving benefits	\$
Terminated employees not yet receiving benefits	
Current employees - Accumulated employee contributions including allocated investment income	
Employer financed	<u>26,986</u>
Total actuarial accrued liability	26,986
Net assets available for benefits at actuarial value	<u>22,499</u>
Unfunded actuarial accrued liability	<u>\$ 4,487</u>

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

NOTE 6 - DEFINED BENEFIT PLAN -

MICHIGAN MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS) – (continued)

The combined change in the pension benefit resulting from benefit changes, if any, and revisions in actuarial assumptions is 0.053632.

Analysis of Funding Progress

Valuation Date <u>December 31</u>	Net Assets Available for <u>Benefits</u>	Pension Benefit Obligation (PBO) <u>(1)/(2)</u>	Percent Funded <u>(1)/(2)</u>	Unfunded (Overfunded) PBO <u>(2)-(1)</u>	Annual Covered Payroll <u></u>	Unfunded PBO as a % of Covered Payroll <u></u>
2004	22,499	26,986	83%	4,487	190,021	2%

NOTE 7 - EMPLOYEE RETIREMENT PLAN

The Authority participates in the Manulife Defined Contribution Pension Plan Group No. 89571 for Michigan Authority employees. This is a single-employer plan. Substantially all full-time employees are included in the plan. Six months of service is required to determine eligibility. The Authority contributes 10% of participant's compensation, while an employee may contribute 1% to 25% of compensation after tax. Annual compensation used to determine the current year contribution is as of April 1, preceding the year. Contribution information is as follows:

TOTAL CURRENT YEAR EMPLOYER CONTRIBUTIONS \$ 9,507

TOTAL CURRENT YEAR EMPLOYEE CONTRIBUTIONS \$ 5,731

These balances reflect contributions for the period from April 1, 2004 to March 31, 2005.

NOTE 8 – IMPLEMENTATION OF GASB STATEMENT NO. 34

The Authority has implemented the standards required by GASB Statement No. 34 for the year ended March 31, 2005. All required statements and disclosures have been included in the basic financial statements.

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

**NOTE 9 – RECONCILIATION OF FUND FINANCIAL STATEMENTS
TO GOVERNMENTAL-WIDE FINANCIAL STATEMENTS**

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total fund balance per balance sheet		\$ 79,083
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.		
Historical cost	\$ 1,507,481	
Depreciation	<u>(388,584)</u>	
Capital assets net of depreciation		1,118,897
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These include:		
Note payable - Hartland Township	(117,932)	
Capital leases payable	<u>(587,355)</u>	
Net		<u>(705,287)</u>
Net assets of governmental activities		<u>\$ 492,693</u>

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - governmental funds \$ 78,998

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their useful lives as depreciation expense. The amount by which depreciation exceeded capital outlays is as follows:

Capital outlay - (portion capitalized as assets)	\$ 520,044	
Depreciation expense	<u>(130,578)</u>	
Net		389,466

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Repayment of:

Note payable - Hartland Township	4,368	
Capital leases payable	<u>142,381</u>	
Net		146,749

Proceeds from long-term debt provide current financial resources to governmental funds, but the issuing of debt increases long-term liabilities in the Statement of Activities. The following debt was issued during the year:

Loan proceeds - Hartland Township	(122,300)	
Loan proceeds - capital leases	<u>(443,843)</u>	
Net		<u>(566,143)</u>

Change in net assets of governmental activities \$ 49,070

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

NOTE 10 - CONTINGENT LIABILITY

The Authority is currently involved in a lawsuit with Tyrone Township. Tyrone Township has given official notice that it is withdrawing its membership effective March 31, 2006. Both parties can not agree on amounts owed or not owed to each other as a result of the Township's withdrawal. Management is not certain of the financial effects the withdrawal and (or) lawsuit will have on the Authority.

REQUIRED
SUPPLEMENTARY
INFORMATION

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2005

	Budgets			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
Hartland Township - contributions	\$ 715,477	\$ 715,477	\$ 715,476	\$ (1)
Tyrone Township - contributions	442,295	442,295	442,296	1
Deerfield Township - contributions	143,095	143,095	143,096	1
Fire runs			20,102	20,102
Interest income			2,673	2,673
Other revenue			237	237
Total revenues	<u>1,300,867</u>	<u>1,300,867</u>	<u>1,323,880</u>	<u>23,013</u>
EXPENDITURES				
Personnel	539,289	536,289	540,383	(4,094)
Employment	35,000	27,000	24,512	2,488
Administrative services and supplies	48,200	40,400	50,501	(10,101)
Contingency	30,000	8,000	3,951	4,049
Contractual services	202,875	201,675	196,750	4,925
Operating supplies	75,403	66,403	60,443	5,960
Repairs and maintenance	50,500	43,500	37,960	5,540
Utilities	27,500	27,500	31,152	(3,652)
Capital outlay and debt repayment	<u>292,100</u>	<u>350,100</u>	<u>865,373</u>	<u>(515,273)</u>
Total expenditures	<u>1,300,867</u>	<u>1,300,867</u>	<u>1,811,025</u>	<u>(510,158)</u>
Excess of revenues over (under) expenditures			<u>(487,145)</u>	<u>(487,145)</u>
OTHER FINANCING SOURCES				
Proceeds from capital lease debt			443,843	443,843
Proceeds from loans			<u>122,300</u>	<u>122,300</u>
Total other financing sources			<u>566,143</u>	<u>566,143</u>
Excess revenues over (under) expenditures and other financing sources			78,998	78,998
BEGINNING FUND BALANCE	<u>85</u>	<u>85</u>	<u>85</u>	
ENDING FUND BALANCE	<u>\$ 85</u>	<u>\$ 85</u>	<u>\$ 79,083</u>	<u>\$ 78,998</u>

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
SCHEDULES OF PENSION FUNDING PROGRESS (UNAUDITED)
FOR THE YEAR ENDED MARCH 31, 2005

In accordance with the Governmental Accounting Standards Board Statements No. 25 and 27, the following information is a required part of the basic financial statements.

FIRE EMPLOYEES

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded (Overfunded) Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
December 31, 2004	\$ 22,499	\$ 26,986	\$ 4,487	83.37%	\$ 190,021	2.36%

SUPPLEMENTARY
INFORMATION

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2005

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Hartland Township - contributions	\$ 715,477	\$ 715,476	\$ (1)
Tyrone Township - contributions	442,295	442,296	1
Deerfield Township - contributions	143,095	143,096	1
Fire runs		20,102	20,102
Interest income		2,673	2,673
Other revenue		237	237
	<u>1,300,867</u>	<u>1,323,880</u>	<u>23,013</u>
Total revenues			
EXPENDITURES			
Personnel	536,289	540,383	(4,094)
Employment	27,000	24,512	2,488
Administrative services and supplies	40,400	50,501	(10,101)
Contingency	8,000	3,951	4,049
Contractual services	201,675	196,750	4,925
Operating supplies	66,403	60,443	5,960
Repairs and maintenance	43,500	37,960	5,540
Utilities	27,500	31,152	(3,652)
Capital outlay and debt repayment	350,100	865,373	(515,273)
	<u>1,300,867</u>	<u>1,811,025</u>	<u>(510,158)</u>
Total expenditures			
Excess of revenues over (under) expenditures		(487,145)	(487,145)
OTHER FINANCING SOURCES			
Proceeds from capital lease debt		443,843	443,843
Proceeds from loans		122,300	122,300
		<u>566,143</u>	<u>566,143</u>
Total other financing sources			
Excess revenues over (under) expenditures and other financing sources		78,998	78,998
BEGINNING FUND BALANCE	<u>85</u>	<u>85</u>	
ENDING FUND BALANCE	<u>\$ 85</u>	<u>\$ 79,083</u>	<u>\$ 78,998</u>

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2005

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
PERSONNEL			
Chief wages	\$	\$ 71,272	\$
Scheduled employee wages		121,217	
Scheduled employee - overtime wages		3,859	
On-call employees wages		227,593	
Per diems - fire board wages		7,250	
Payroll taxes		32,806	
Medical insurance		10,214	
Disability - life insurance		12,026	
Workers compensation insurance		22,162	
Retirement (MERS and deferred compensation)		31,984	
	<u>536,289</u>	<u>540,383</u>	<u>(4,094)</u>
Total personnel			
EMPLOYMENT			
Uniforms and clothing allowance		3,354	
Physicals and medical expense		14,824	
Education and training		6,334	
	<u>27,000</u>	<u>24,512</u>	<u>2,488</u>
Total employment			
ADMINISTRATIVE SERVICES AND SUPPLIES			
Office supplies		3,914	
Furniture		320	
Postage		527	
Computers and software		3,136	
Dues and membership		1,885	
Telephone		9,857	
Printing and publishing		339	
Liability insurance		30,348	
Bank fees		175	
	<u>40,400</u>	<u>50,501</u>	<u>(10,101)</u>
Total administrative services and supplies			
CONTINGENCY			
Claims/damages	<u>8,000</u>	<u>3,951</u>	<u>4,049</u>

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL (continued)
FOR THE YEAR ENDED MARCH 31, 2005

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
CONTRACTUAL SERVICES			
Grounds maintenance		18,186	
Accounting		5,555	
Computer		180	
Auditing services		7,950	
Fire protection contracts		161,294	
Attorney fees		<u>3,585</u>	
Total contractual services	<u>201,675</u>	<u>196,750</u>	<u>4,925</u>
OPERATING SUPPLIES			
Uniforms and protective clothing		13,103	
Employee support		21	
Fire prevention		1,638	
Operating supplies		9,483	
Tools		1,263	
Maps and directories		181	
Small equipment		10,553	
Medical supplies		3,667	
Foam		3,058	
Radio equipment		2,776	
Fuel		<u>14,700</u>	
Total operating supplies	<u>66,403</u>	<u>60,443</u>	<u>5,960</u>
REPAIRS AND MAINTENANCE			
Equipment repairs		7,965	
Vehicle repairs		26,295	
Grounds maintenance		27	
Building repairs		2,898	
Radios - repairs		391	
Administrative supplies - repairs		<u>384</u>	
Total repairs and maintenance	<u>43,500</u>	<u>37,960</u>	<u>5,540</u>

HARTLAND DEERFIELD TYRONE FIRE AUTHORITY
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL (continued)
FOR THE YEAR ENDED MARCH 31, 2005

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
UTILITIES			
Gas		13,055	
Electricity		15,758	
Sewer		1,352	
Water		987	
	<u> </u>	<u> </u>	<u> </u>
Total utilities	<u>27,500</u>	<u>31,152</u>	<u>(3,652)</u>
CAPITAL OUTLAY			
Equipment - operating		193,232	
Transportation equipment		495,659	
Computers and software		1,317	
Debt service - principle		146,749	
Debt service - interest		28,416	
	<u> </u>	<u> </u>	<u> </u>
Total capital outlay	<u>350,100</u>	<u>865,373</u>	<u>(515,273)</u>
Total expenditures	<u>\$ 1,300,867</u>	<u>\$ 1,811,025</u>	<u>\$ (510,158)</u>

HARTLAND DEERFIELD TYRONE
FIRE AUTHORITY

COMMENTS
AND
RECOMMENDATIONS

FOR THE YEAR ENDED MARCH 31, 2005



PFEFFER ■ HANNIFORD ■ PALKA
Certified Public Accountants

John M. Pfeffer, C.P.A.
Patrick M. Hanniford, C.P.A.
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September 6, 2005

Board of Trustees
Hartland Deerfield Tyrone Fire Authority
3205 Hartland Road
Hartland, Michigan 48353

Honorable Board of Trustees:

In planning and performing our audit of the financial statements of Hartland Deerfield Tyrone Fire Authority for the year ended March 31, 2005, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and not to provide assurance on internal control.

However, during our audit we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency. Those matters are as follows:

1. COMMENT

The Authority's financial institution does not return cleared checks or images of cleared checks with the monthly bank statement.

RECOMMENDATION

The Authority should request its financial institution to return cleared checks or images of cleared checks. This would enable the reviewer of bank statements to verify the payee is correct.

2. COMMENT

We found instances where 1099's were not issued to individuals for services provided to the Authority.

RECOMMENDATION

The IRS requires that individuals who are paid \$600 or more for services should be issued a 1099.

3. COMMENT

We found several instances where the Authority was charged sales tax.

RECOMMENDATION

The Authority should not be charged sales tax. Vendors charging sales tax should be notified the Authority is tax exempt.

4. COMMENT

We found the accounts receivable ledger (cost recovery) was not updated during the year for individual account changes.

RECOMMENDATION

The accounts receivable ledger should be updated as changes are made.

5. COMMENT

The Authority does not have an approved investment policy.

RECOMMENDATION

The Authority should approve a formal investment policy.

This letter does not affect our report dated September 6, 2005 on the financial statements of Hartland Deerfield Tyrone Fire Authority.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and recommendations with various Authority personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Trustees, and management of Hartland Deerfield Tyrone Fire Authority.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants